

**TECHNICAL EXPLANATION OF THE VICTIMS OF
TERRORISM RELIEF ACT OF 2001**

Prepared by the Staff
of the
JOINT COMMITTEE ON TAXATION



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INTRODUCTION

This document,¹ prepared by the staff of the Joint Committee on Taxation, contains a technical explanation of the Victims of Terrorism Relief Act of 2001, scheduled for consideration by the U.S. House of Representatives on September 13, 2001.

¹ This document may be cited as follows: Joint Committee on Taxation, *Technical Explanation of the Victims of Terrorism Relief Act of 2001* (JCX-68-01), September 13, 2001.

TECHNICAL EXPLANATION OF THE VICTIMS OF TERRORISM RELIEF ACT OF 2001

I. PRESENT LAW

Exemption from tax upon death in a combat zone or as a result of terrorist action

An individual in active service as a member of the Armed Forces who dies while serving in a combat zone (or as a result of wounds, disease, or injury received while serving in a combat zone) is not subject to income tax for the year of death (as well as for any prior taxable year ending on or after the first day the individual served in the combat zone) (sec. 692). Special computational rules apply in the case of joint returns. In addition, military and civilian employees of the United States are entitled to this exemption from income taxes if they die as a result of wounds or injury which was incurred outside the United States in terrorist or military action. This exemption is available for the year of death and for prior taxable years beginning with the taxable year prior to the taxable year in which the wounds or injury were incurred. Accordingly, if someone is injured and dies in the same taxable year, this exemption from income tax is available for the taxable year of death as well as the prior taxable year.

The Code also provides a reduction in Federal estate taxes for taxable estates of United States citizens or residents who are killed in action while serving in a combat zone (as defined in section 112(c)) as active members of the Armed Forces (sec. 2201). This provision also applies to service members who die as a result of wounds, disease, or injury suffered while serving in the line of duty in a combat zone by reason of a hazard to which the service member was subjected as an incident of such service.

In general, the effect of section 2201 is to replace the Federal estate tax that would otherwise be imposed with a Federal estate tax equal to 125% of the maximum state death tax credit determined under section 2011(b). Credits against the tax, including the unified credit of section 2010 and the state death tax credit of section 2011, then apply to reduce (or eliminate) the amount of the estate tax payable.

Specifically, the reduction in Federal estate taxes under section 2201 is equal in amount to the "additional estate tax," as defined in section 2011(d), with respect to the estates of decedents dying before January 1, 2005. Section 2011(d) provides in relevant part that the additional estate tax shall be the difference between the Federal estate tax imposed by section 2001 and 125% of the maximum state death tax credit determined under section 2011(b). With respect to the estates of decedents dying after December 31, 2004, section 2201 provides that the additional estate tax shall be the difference between the Federal tax imposed by section 2001 and 125% of the maximum state death tax credit determined under section 2011(b), as in effect prior to its repeal by the Economic Growth and Tax Relief Reconciliation Act of 2001.

General time limits for filing tax returns

Present law provides that individuals generally must file their Federal income tax returns by April 15 of the year following the close of a taxable year (sec. 6072). Present law also provides that the Secretary may grant reasonable extensions of time for filing such returns (sec. 6081). Treasury regulations provide an additional automatic two-month extension (until June 15 for calendar-year individuals) for United States citizens and residents in military or naval service on duty on April 15 of the following year (the otherwise applicable due date of the return) outside the United States (Treas. Reg. sec. 1.6081-5(a)(6)). No action is necessary to apply for this extension, but taxpayers must indicate on their returns (when filed) that they are claiming this extension. Unlike most extensions of time to file, this extension applies to both filing returns and paying the tax due.

Treasury regulations also provide, upon application on the proper form, an automatic four-month extension (until August 15 for calendar-year individuals) for any individual timely filing that form and paying the amount of tax estimated to be due (Treas. Reg. sec. 1.6081-4).

In general, individuals must make quarterly estimated tax payments by April 15, June 15, September 15, and January 15 of the following taxable year. Wage withholding is considered to be a payment of estimated taxes.

Suspension of time periods

In general, present law suspends the period of time for performing various acts under the Internal Revenue Code, such as filing tax returns, paying taxes, or filing a claim for credit or refund of tax, for any taxpayer determined by the Secretary to be affected by a Presidentially declared disaster (sec. 7508A).

The suspension of time applies to the following acts:

- (1) Filing any return of income, estate, or gift tax (except employment and withholding taxes);
- (2) Payment of any income, estate, or gift tax (except employment and withholding taxes);
- (3) Filing a petition with the Tax Court for redetermination of a deficiency, or for review of a decision rendered by the Tax Court;
- (4) Allowance of a credit or refund of any tax;
- (5) Filing a claim for credit or refund of any tax;
- (6) Bringing suit upon any such claim for credit or refund;

- (7) Assessment of any tax;
- (8) Giving or making any notice or demand for the payment of any tax, or with respect to any liability to the United States in respect of any tax;
- (9) Collection of the amount of any liability in respect of any tax;
- (10) Bringing suit by the United States in respect of any liability in respect of any tax;
and
- (11) Any other act required or permitted under the internal revenue laws specified in regulations prescribed under section 7508 by the Secretary of the Treasury.

Individuals may, if they choose, perform any of these acts during the period of suspension.

II. DESCRIPTION OF THE BILL

The bill treats individuals who die as a result of wounds or injury which were incurred as a result of the terrorist attacks that occurred on September 11, 2001, in the same manner as if: (1) they were a military or civilian employee of the United States dying as a result of terrorist or military activity outside the United States for purposes of section 692(c) of the Internal Revenue Code, and (2) they were a member of the Armed Forces of the United States in active service killed in action while serving in a combat zone or as a result of wounds, disease, or injury suffered while serving in a combat zone for purposes of section 2201 of the Code. Consequently, these individuals (whether killed on the four airplanes or on the ground, whether as victims or in rescue or recovery operations) are eligible for the exemption from income tax and the reduction in estate tax provided by these two provisions. Perpetrators of these terrorist attacks are not eligible for these special rules. The determination as to whether an individual is a perpetrator is to be made by the Secretary of the Treasury (or the Secretary's delegate), in consultation with appropriate authorities. Individuals who are wounded or injured as a result of the terrorist attack that occurred on September 11, 2001, and who die as a result of their wounds or injury in a later taxable year are eligible for the exemption from income taxes for all the taxable years beginning with the year prior to the year of the wounds or injury and ending with the year of death. The provision amending section 692 is effective for taxable years ending on or after September 11, 2001. The provision amending section 2201 applies to estates of decedents dying on or after September 11, 2001.

In the past, the IRS has exempted from income certain disaster payments made by government agencies that provide for promotion of general welfare,² such as certain disaster payments made by the Federal Emergency Management Agency (FEMA). The Congress expects that the IRS will consistently apply this policy in this situation and in the future.

Some have inquired as to the tax treatment of initial payments made by the airlines to the families of victims on the four hijacked airplanes. These payments are advances to the families of the victims to help meet their immediate needs. Section 104 of the Internal Revenue Code excludes from income damages received on account of personal physical injury. Accordingly, no additional statutory provision is necessary to exclude such payments.

² Rev. Rul. 98-19, 1998-15 I.R.B. 5; Rev. Rul. 76-144, 1976-1 C.B. 17; IRS Publication 547 (Casualties, Disasters, and Thefts), page 5 (revised December 2000).